

## FIELD AUDIT

This activity is responsible for ensuring tax compliance and the collection of outstanding tax liabilities through the examination of information provided on tax returns and by auditing records at the taxpayer's place of business. This activity consists of three branches: Field Audit, Out-of-State Audit and Audit Services.

### Field Audit

The Field Audit Branch audits businesses to determine if they have complied with their obligations under New Jersey's tax statutes. The audit examination of the taxpayer's accounting records is comprehensive and covers all taxes administered by the Division. In addition, as part of several interstate exchange agreements, select information may be obtained for other taxing jurisdictions during the performance of the audit.

In addition to regular audit activities the Field Audit Branch has undertaken its cash audit initiative. This program is designed to strengthen compliance and collection efforts as well as level the playing field for smaller to moderately sized companies located in New Jersey.

During the 1998 fiscal year, the seventeen field audit groups completed 4,973 assignments consisting of both regular and cash audits. The completed assignments generated assessments of \$96,670,495 including penalty and interest charges. The distribution of the assessments by tax is as follows:

| <b>Tax</b>              | <b>FY 1997</b> | <b>FY 1998</b> |
|-------------------------|----------------|----------------|
| Sales & Use             | \$46,651,430   | \$45,417,980   |
| Corporation Business    | 19,562,877     | 17,491,588     |
| Business Personal Prop. | 80,561         | 120,220        |
| Gross Income            | 4,346,598      | 5,112,420      |
| Litter                  | 712,784        | 970,409        |
| Miscellaneous Other     | 2,875,931      | 2,116,484      |
| Total Tax               | \$74,230,181   | \$71,229,101   |
| Penalty and Interest    | 23,103,542     | 25,441,394     |
| Total Assessments       | \$97,333,723   | \$96,670,495   |

### Out-of-State Audit

The Out-of-State Audit Branch has the responsibility to perform field audits for all New Jersey taxes on all taxpayers whose accounting records are maintained outside of the State. Currently the Division has regional offices in Chicago (Illinois), Anaheim (California), and Norwalk

(Connecticut) with telecommuters located in Atlanta, Boston, Dallas and Houston.

Completions of audits by the Out-of-State Audit Branch for fiscal year 1997 and fiscal year 1998 were 220 and 187 audits respectively which generated assessments totaling \$17 million and \$22.7 million respectively. The distribution of assessments by tax is as follows:

| <b>Tax</b>              | <b>FY 1997</b> | <b>FY 1998</b> |
|-------------------------|----------------|----------------|
| Sales & Use             | \$ 7,816,007   | \$ 9,809,380   |
| Corporation Business    | 3,182,249      | 6,208,937      |
| Litter                  | 1,121,778      | 1,068,312      |
| Petro. Gross Receipts   | 0              | 487,327        |
| Business Personal Prop. | 101,317        | 62,359         |
| Gross Income            | 8,139          | 0              |
| Total Tax               | \$12,229,490   | \$17,636,315   |
| Penalty and Interest    | 4,812,635      | 5,033,048      |
| Total Assessments       | \$17,042,125   | \$22,669,363   |

The average assessments per auditor for these two fiscal years were \$917,230 and \$1,439,325 respectively. Collections versus assessments on closed audits since inception of the Branch through the end of this fiscal year is 74.4%.

### Audit Services

The Audit Services Branch provides audit, technical and clerical support for various Branches within the Division. In addition to the support functions, they house the Miscellaneous Tax Group, Public Utility Tax Unit and Sales Tax Refund Section.

The Audit Selection group provides Audit with candidates selected by utilizing various resources such as the Division's databases, analysis of outside information, manipulating and comparing reporting histories and reviewing the latest tax issues. All resources utilized by this group are geared towards providing Audit with the most effective candidates for audit.

The Case Preparation Team within the Audit Selection group assists the various Audit Teams in the preparation of case files. This includes entering Corporation Business Tax returns in the automated workpapers. This eliminates some of the functions previously performed by technical staff located in Field Offices. This enables them to more efficiently service the auditors' and supervisors' needs.

The Technical Support group processes data received from various outside agencies such as the I.R.S., U.S. Customs and third parties, such as alcoholic beverage wholesalers, as well as manipulating the Division's databases to provide Audit Branches with valuable audit in-

formation. This group is also in the process of developing new management reports for Division managers.

Audit Services continues to assist auditors with updates and maintenance for laptops, desktop computers, peripheral equipment and programs including SmartPapers, the automated workpapers system. In addition to providing assistance and training, they are continually reviewing and evaluating new technologies to further enhance the auditor's efficiency. This group also provides assistance to the various groups within this Branch.

The Audit Billing group within Audit Services provides billing capabilities for all Audit Branches. This process includes making the necessary adjustments to the Division's systems to properly reflect the taxpayer's account, creating bills, corresponding with taxpayers, applying payments and transferring files for administrative hearings or securing the liability for future collection.

Independently this Branch handles administrative functions for Motor Fuels Tax, Petroleum Products Gross Receipts Tax, Tobacco Taxes and Alcoholic Beverage Taxes, which are too small to be totally mainstreamed. This group issues refunds, reconciles accounts, issues licenses, determines proper bonding requirements and provides taxpayer service as it relates to the numerous miscellaneous taxes.

The Sales Tax Refund group processes and reviews refund claims. This group works closely with Audit to streamline processes and perform functions more effectively and efficiently.

This Branch continues to maintain and expand the Local Area Network for Audit Activity. The LAN is highly relied upon by both the Gross Income Tax Branch and the Nexus team. The LAN allows these groups to streamline information and utilize resources more efficiently and effectively.

The Public Utility Tax unit has been implementing changes that affected the energy industry with the passing of new legislation. This Unit worked closely with the Treasurer's Office to introduce and implement this new legislation. They continue to administer the Gross Receipts and Franchise Tax in all aspects for other utilities.

The Word Processing unit provides various Branches within the Division the ability to produce massive quantities of production. This group provides the word processing support that otherwise is absent from groups such as the Gross Income Tax Branch, Nexus and other areas that require assistance with high volume projects.

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## OFFICE AUDIT

The Office Audit Activity is comprised of several different branches. These Branches of operation are Office Audit Branch, Gross Income Tax Audit Branch and Transfer Inheritance and Estate Tax Branch. The primary responsibilities of this Activity are to ensure tax compliance through the auditing of tax returns filed and the examination of information provided at the Division of Taxation offices located in Trenton, New Jersey.

### Office Audit

The primary responsibility of this Branch is the audit and refund of Corporation Business Tax. Other taxes audited include the Financial Business Tax, Insurance Premiums Tax, Ocean Marine Tax, Retaliatory Tax, Savings Institution Tax, various Sanitary Landfill Taxes, Spill Compensation and Control Tax and the Corporation Income Tax.

The Branch is comprised of nine audit groups. Three groups are assigned general corporate desk audits. The two Corporate Service Audit groups have the responsibility to examine taxpayers in order to issue Tax Lien Certificates, Tax Clearance Certificates and Certificates of Reinstatement of Corporate Charter. The Special Audit group has responsibility for taxes other than the Corporation Business Tax, as well as reviewing Internal Revenue audit changes. The Nexus Audit group has the responsibility to discover and examine out-of-State entities to determine whether they have an unreported tax filing and paying obligation. The Corporate Billing group handles all deficiencies generated by corporation tax return filings, as well as auditing all amended returns not claiming a refund. The Corporate Refund Audit group is responsible for auditing and approving all Corporation Business Tax refund claims. Last fiscal year, this group denied refund claims totaling \$26,450,325.

During fiscal year 1998, the nine audit groups generated assessments, including penalty and interest in excess of \$75 million, while issuing 23,614 tax certificates of various types. Distribution of assessments by tax is as follows:

| <b>Tax</b>           | <b>Amount</b>      |
|----------------------|--------------------|
| Corporation Business | \$45,428,237       |
| Sales & Use          | 5,048,469          |
| Gross Income         | 460,510            |
| Miscellaneous Others | 2,458,329          |
| Total Tax            | <hr/> \$53,395,545 |
| Penalty and Interest | 22,015,270         |
| Total Assessments    | <hr/> \$75,410,815 |

## Gross Income Tax Audit

The Gross Income Tax Audit Branch's responsibility is the auditing of gross income tax returns filed with the Division, using a variety of criteria developed within the Branch utilizing information from the Internal Revenue Service, neighboring states, and other New Jersey agencies where applicable.

The Branch also pursues delinquent resident and nonresident taxpayers separately and in joint projects with other Division branches and the Internal Revenue Service.

Some categories of individuals and/or businesses the Branch is currently focusing on are entertainers, professional athletes, partnerships and their partners, S corporations and related shareholders, fiduciaries and their beneficiaries, the self-employed, and employers withholding gross income tax.

During fiscal year 1998, the six audit teams of the Gross Income Tax Audit Branch completed the following cases using computer-assisted and manual audit techniques:

|                      | <b>FY 1998</b> |
|----------------------|----------------|
| Cases Reviewed       | 42,279         |
| No. of Assessments   | 7,805          |
| Tax Assessed         | \$18,596,106   |
| Penalty and Interest | 6,766,897      |
| Total Assessments    | \$25,363,003   |
| Amount Collected     | \$14,284,319   |

## Transfer Inheritance and Estate Tax

The Transfer Inheritance and Estate Tax Branch is responsible for the administration of New Jersey Transfer Inheritance Tax and the New Jersey Estate Tax, two separate and distinct taxes.

During the fiscal year, 6,793 assessments, including 537 nonresident, and 1,379 estate tax assessments were made. The Branch processed 57,549 self-executing waivers (Form L-8) and 7,184 requests for real estate waivers (Form L-9). In addition to the formal waivers generated through use of the Form L-9, the Branch issued 50,560 additional waivers.

Revenue in the amount of \$355,050,715 was collected. Approximately 28 percent (\$97,867,458) of this amount was attributable to the New Jersey Estate Tax.

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## TECHNICAL SERVICES

### Conference and Appeals

The Conference and Appeals Branch handles taxpayer complaints and protests and conducts informal administrative hearings.

Incoming protests are reviewed by the Branch's Problem Resolution Section for compliance with the statutory and regulatory provisions for Protests and Appeals. During the 1998 fiscal year, the Problem Resolution Section forwarded to the Conference Section only 1,157 of the total 3,572 protests received. The matters resolved by this Section are typically completed within one month of receipt of a proper protest.

The Risk Management Section determines whether or not the State is at risk relative to the collection of the protested assessment. Taxpayers may be asked either to pay the outstanding assessment, or to furnish a surety bond or letter of credit. Should a taxpayer be required to pay and/or post surety and fail to do so, *no stay of collection* is in effect. Therefore, a Certificate of Debt will be filed against the taxpayer in the Superior Court of New Jersey. Concurrently, a "Finding of Responsible Person" will be initiated, as appropriate, in cases involving trust fund taxes.

The Conference Section provides informal administrative hearings. After the hearing process, the conferee issues the Division's Final Determination on assessments, notices of individual responsibility for trust fund taxes, denials of refunds, as well as such non-monetary issues as nexus, subjectivity determinations and the denial of claims by organizations claiming exempt status. There were 979 such Final Determinations issued for this fiscal year.

Final Determinations are appealable exclusively to the Tax Court of New Jersey. The Appeals Section of the Branch tracks and manages these cases, acting as the Division's liaison with the Deputy Attorney General assigned to defend the Division of Taxation. During the fiscal year, 184 new appeals were filed and 85 cases were concluded.

Eighty-three percent (83%) of all cases received into the Conference Section were generated by Audit Activity. Field Audit generated 68% of the Audit Activity cases while Office Audit generated the remaining 32%.

This fiscal year, the Conference and Appeals Branch (in cooperation with other Branches) closed 3,454 protested matters. The Branch collected over \$7.8 million in tax, penalty and interest.

## Tax Services

The Tax Services Branch drafts rules, regulations and notices for publication in the *New Jersey Register* and the *New Jersey State Tax News*; acts as the Division liaison with the Office of the Attorney General on technical and regulatory issues; provides administrative and enforcement advice to Division management and staff on all tax laws under the jurisdiction of the Division; drafts proposed legislation; reviews legislation and prepares comments; provides technical assistance in the implementation of new tax laws; and analyzes, researches and responds to all taxpayers' inquiries and requests for technical advice or letter rulings.

As a subunit of the Tax Services Branch, the Exempt Organization Section processes and makes determinations on applications for Sales and Use Tax Exempt Organization Permits. For fiscal year 1998, the Exempt Organization Section mailed over 1,300 applications, ruled on over 1,000 completed applications and issued 41 denials of exempt organization status.

The Branch is charged with the responsibility of coordinating the processing of all Division rules and notices. The Administrative Practice Officer within the Branch maintains contact with the Office of Administrative Law in order to oversee the promulgation of Division rules and their official publication in the *New Jersey Register*. A total of 17 rules and notices were proposed, adopted and published in fiscal year 1998.

The Branch also researched and wrote over 2,300 taxpayer advice letters and answered approximately 17,000 telephone inquiries on technical tax matters.

## Taxpayer Services

Taxpayer Services is responsible for encouraging voluntary compliance by providing taxpayers the information and assistance they need to meet their New Jersey tax responsibilities. As a result of modern technology, two out of three taxpayers used one or more of the following automated services during the year:

- **NJ TeleFile Program** is the latest use of technology to improve our services to taxpayers. During the 1997 tax season, over 181,000 taxpayers filed their returns by NJ TeleFile and had their refund checks mailed within two weeks.
- **Automated Tax Information System** offers taxpayers four types of assistance from a Touch-tone phone:

*Automated Refund Inquiry System* provides information about current year tax refunds (used by 300,000 taxpayers in fiscal year 1998).

*Homestead Rebate InfoLine* provides information on the status of current year homestead rebates (used by 187,000 taxpayers).

*New Jersey TaxTalk* offers information on 70 different topics (used by 53,000 taxpayers).

*Forms Request System* allows callers to order tax forms and publications (used by 120,000 taxpayers).

- **NJ TaxFax** service makes State income tax forms and other technical information available to fax machine users. During 1998, 62,000 forms were sent to taxpayers via TaxFax.

Taxpayer Services Activity includes the following:

**Tax Hotline** has a maximum of 60 agents who answer questions on all taxes and programs administered by the Division and assist in the resolution of account related problems. This service provides immediate assistance and in many cases, eliminates the need for taxpayers to correspond with the Division.

**Office of Communication** is responsible for tax publications including the instructions for individual income tax returns, technical bulletins, brochures and notices, and the quarterly newsletter for tax practitioners, the *New Jersey State Tax News*. The Office of Communication also is responsible for preparing replies to general taxpayer correspondence and referrals. Fifty-eight percent of the mail received is e-mail.

**Taxpayer Forms Services** mails out forms in response to taxpayers' requests and also handles bulk mailing for special projects. During 1998, 456,000 items were mailed.

- Taxpayer Services statistics:

|                     | <b>FY 1998</b> |
|---------------------|----------------|
| Phone calls         | 1.5 million    |
| Correspondence      | 32,000         |
| On-line Adjustments | 106,000        |
| Revenue Collected   | \$8,111,370    |

- Major publications included production of the *Annual Report*, *Package NJX* and a number of new business-related About New Jersey Taxes bulletins.
- NJ TeleFile program will be expanded during the next fiscal year to allow taxpayers claiming dependent children attending colleges to file their returns by TeleFile.

## Technical Education Office

The Technical Education Office supports Division employees, the taxpaying public and the practitioner community through a variety of efforts. Responsible for all internal technical training and staff development initiatives, the TEO provides technical support for employees on new and emerging technologies to increase employee skill level and efficiency. The Technical Education Office administers and delivers training on Integrity Awareness, Economic Reality, selected software packages and many other topics.

Additionally, the TEO administers the Division's Speakers Bureau and the Small Business Workshop series. The TEO participates in corporate seminars to promote business activity in New Jersey and supports voluntary compliance through the VITA (Volunteer Income Tax Assistance) and TCE (Tax Counseling for the Elderly) programs.

The TEO has responsibility for the Division's Home Page. Since its inception in 1996, the Home Page has expanded to provide information on a wealth of programs and initiatives. Forms and publications can be accessed on the page as well as instructions and updates on most Division efforts. To date, the Home Page has received over 2.6 million "hits."

The Division's Home Page can be accessed at:

**<http://www.state.nj.us/treasury/taxation/>**

The publication of a CD-ROM disk containing the *Package NJX* and many other useful features has been a combined effort of several Technical Services Activity functions. The disk, now in its second iteration, has been improved to be more user friendly with improved graphics and search engines. The CD-ROM disk provides another important tool for the practitioner community to use in complying with State tax requirements.

## COMPLIANCE

### Special Procedures

The Special Procedures Branch is primarily responsible for the collection of overdue tax liabilities. During fiscal year 1998 the Branch collected \$31,523,126. The specific functions of Special Procedures are as follows:

**Attorney General Referrals.** Whenever the Division has exhausted its collection remedies without success the case may be referred to the Office of the Attorney General for additional collection actions. Such actions may include domesticating the Division's lien in another state wherein assets of a debtor may have been located and/or the instituting of wage garnishment proceedings.

**Bankruptcy.** The primary function of the Bankruptcy Section is to effectuate collection of delinquent taxes from debtors who have filed for protection under Federal or State Insolvency Statutes, by submitting Proofs of Claims to the appropriate courts of jurisdiction.

**Bulk Sales.** The Bulk Sales Section is responsible for examining tax records of each business which disposes of its assets, either by sales, transfer or assignment, other than in the normal course of business. This area also issues Tax Clearance Certificates for Transfer of Retail Alcoholic Beverage Licenses.

**Closing Agreements.** Under provisions of the State Tax Uniform Procedure Law applications for compromise/settlement of tax debts are processed.

**Judgments.** The Judgment Section collects overdue liabilities from taxpayers who neglected or refused to pay taxes and/or file returns through normal channels. The primary collection vehicle is the Certificate of Debt which is filed with the Clerk of the New Jersey Superior Court. A Certificate of Debt has the same force and effect as a Docketed Judgment adjudicated in any court of law.

### Compliance Services

The Compliance Services Branch (formerly Office Collections) is a multi-functional Branch that provides services to the Division, to the taxpaying public and to other State agencies. Some of the specific functions are as follows:

**ABC Clearance Section.** This section is responsible for the issuing of the Alcoholic Beverage Retail Liquor License Clearance Certificates prior to the annual renewal of the license. Phase III of a three year phase-in was completed this year. There were 10,029 licenses reviewed by

this section and over 9,750 Clearance Certificates were issued to compliant licensees.

**Delinquency Section.** This section is responsible for securing delinquent tax returns and payments in order to bring taxpayers into compliance with regulatory filing provisions. Highlights during the fiscal year included acceleration of the Personal Gross Income Tax Delinquency program and implementation of a Use Tax program targeting untaxed items brought into the State. Delinquency programs are in place for 14 of the 26 taxes administered by the Division.

**Deferred Payment Section.** This section provides an avenue for taxpayers to repay deficient taxes by way of a formal payment plan. Since the Amnesty Program of 1996, the number of payment plans monitored by this section has doubled to over 2,000, with the average duration 12 months.

**Compliance Services Data Group.** This section is responsible for planning, designing and implementing new programs and projects for the Compliance Activity in the area of database management, data processing and office automation. During the course of the year this group planned, designed and tested the remote capability for various sites to access the CD Tower and the Division's TAXNET System. An automated Personal Income Tax program was developed and is now operational. This group also advises management in a consulting capacity for recommendations for the latest available technology, provides support for the PCs, troubleshoots for technical problems and provides software and PC training.

**Casual Sales Section.** This section coordinates its efforts with the Division of Motor Vehicles to verify and collect the appropriate sales tax on motor vehicles, boats and aircraft. The culmination of this effort is the notification to taxpayers when discrepancies arise in the sales tax due and paid. Purchases of motor vehicles by out-of-State taxpayers are also questioned.

This branch is also responsible for the **Set-Off Program**, empowers the Division of Taxation to apply payments due State vendors for deficient taxes; **SOIL**, **Set-Off of Individual Liability**, a program designed to withhold personal gross income tax refunds and homestead rebates from taxpayers who have outstanding tax debts; **Lottery**, this unit must verify to the New Jersey Lottery Commission that taxes of prospective lottery machine agents are current; and **CATCH**, where **Citizens Against Tax CH**eats can make referrals.

In addition, this branch provides the liaison between the Division and PAYCO, General American Credits, a private collection agency contracted to pursue delinquent and deficient taxes for the Division of Taxation.

## Taxpayer Accounting

The Taxpayer Accounting Branch issues bills for underpayments of tax, penalty and interest, reviews bills and refund or credit requests, and responds to taxpayer inquiries regarding the status of their accounts. The Branch is comprised of the Correspondence and Review Sections for personal income tax, a Business Tax Section, and a Support Section. As a special service, Taxpayer Accounting also provides a Tax Practitioner Hotline where practitioners can call for assistance in resolving client problems that they have been unable to resolve through normal channels.

For fiscal year 1998, the Taxpayer Accounting Branch answered more than 135,000 pieces of correspondence and almost 35,000 phone calls; reviewed about 57,000 bills and 52,000 refunds; adjusted, updated, or corrected approximately 227,000 accounts; and collected more than \$4.8 million.

## Investigations

The Investigations Branch contacts new and existing businesses to ensure compliance with New Jersey's tax laws and pursues collection of delinquent and deficient taxes from businesses and individuals. When necessary, Certificates of Debt are recorded and followed by levy, seizure and sale by auction of business and personal assets. Some violations are prosecuted in municipal court.

In fiscal year 1998, Investigations conducted 189 seizures of business and/or personal assets based on outstanding Certificates of Debt. One hundred seventeen (117) of the seizures involved liquor licenses. Fifty-one (51) auctions were necessary.

Investigations has continued to utilize their statutory authority to make an immediate, on-site assessment of tax due (referred to as a "jeopardy assessment"). The targets are primarily out-of-State transient vendors who failed to register their business, to collect and remit State taxes, such as sales tax and corporation business tax, or to file tax returns. Failure to satisfy the jeopardy assessment results in immediate seizure of assets and vehicles.

## Highlights

- **Certificates of Debt Filed.** In conjunction with 15,189 cases, 27,301 Certificates of Debt were filed in the Superior Court totaling \$175,997,409.
- **Cases Referred to Attorney General for Collection.** Two thousand five hundred twenty-four (2,524) cases were referred to the Office of the Attorney General for collection actions. Collections of \$4,848,522 were received on Attorney General referral cases.

- **Closing Agreements Approved.** Thirty-nine (39) Closing Agreements were approved, 50 requests were denied and another 121 denials resulted in full payment with statutory abatement. Collections on Closing Agreement cases totaled \$2,028,942.

- **Bankruptcy Activity.** The Bankruptcy Section filed 1,835 Proofs of Claim for \$44,902,947; 252 Amended Proofs of Claim for \$10,345,641; and 264 Administrative Proofs of Claim totaling \$5,421,637. Collections on insolvency matters totaled \$6,281,070.

- **Bulk Sales Activity.** The Bulk Sales Section received 3,245 Notices of Sale during the fiscal year. Collections for the year were \$10,438,947.

Eight hundred and four (804), or 25%, of these notices received pertained to transfers of Retail Liquor Licenses. Project personnel recommended 63 cases for audit. In all, 65 audits were completed resulting in \$2,717,277 in assessments, an average of \$41,804 per taxpayer. Collections of \$5,420,396 were realized from this project. Of this amount, \$289,875 was as a result of discovery of unreported transfers of liquor licenses.

- **Canvassing/Sweep Activity.** Field Investigators contacted almost 17,000 business locations as a result of increased efforts to seek out non-compliant New Jersey vendors as well as transient out-of-State vendors. Investigators registered a total of 1,833 new taxpayers as a direct result of this activity.
- **Jeopardy Assessments/Seizures.** Field Investigators levied 591 jeopardy assessments, executed 8 jeopardy seizures and collected \$676,204 as a result of these actions.
- **Audit/Compliance Cash Project.** Investigations and Audit are working jointly on a Cash Audit Project focusing on various segments of the cash economy. The cash audit process is enhanced as a result of information provided by investigators throughout the audit.
- **Audit/Compliance Nexus Project.** Another area in which Compliance and Audit have developed a coordinated response is nexus. Investigators are discovering out-of-State vendors doing business in our State and referring them to the Audit Nexus Group to determine liability for New Jersey taxes. When necessary, the investigators serve warrants of jeopardy assessment to secure payment.

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## PROPERTY ADMINISTRATION

Property Administration consists of two branches, Local Property and Unclaimed Property. Local Property, whose activities concern real and certain personal property, is comprised of Policy and Planning; Local Assessment Compliance; and Field Assistance. Unclaimed Property, whose activities pertain to intangible personal property and safe deposit box contents, includes the Audit Section and the Operations Section.

### UNCLAIMED PROPERTY

Unclaimed Property consists of financial assets, such as: savings accounts, wage checks, life insurance policies, dividends, stocks and bonds. Property is "unclaimed" when it cannot be paid or delivered to the apparent owner, and there is no communication between the holder and the apparent owner for a specified abandonment period. This program is defined in N.J.S.A. 46-30B, et seq. The Unclaimed Property Web site can be searched at the following addresses:

Claim Information —

<http://www.state.nj.us/treasury/taxation/updiscl.htm>

Holder Information —

<http://www.state.nj.us/treasury/taxation/unclaim.htm>

### Audit

Audit section conducts compliance audits of major corporate holders of unclaimed property. Corporate entities audited include insurance companies, banks, brokerage firms, mutual funds, retailers, utilities, etc. The State also contracts with two audit firms for out-of-State holders.

### Operations

**Holder Reporting Unit** receives all reports of unclaimed property that meet the abandonment criteria. The report section works with holders to assure the accuracy of reports and their correct entry onto the electronic system. Magnetic tapes are received for all reports with 500 or more records.

**Claims Processing Unit** receives all claims for the return of unclaimed property. Claims are researched and prior to payment, rightful ownership is validated. Approximately 20,000 claims are received each year and about \$15 million is annually returned to New Jersey taxpayers.

**Reporting Compliance Unit** was established in 1997. Its mission is to educate holders who may not be reporting, or who may be underreporting. This unit assists holders to attain compliance with unclaimed property laws.

***Intestate Estates Unit*** supervises and oversees the administration of intestate (no will, no apparent heir) estates through the court appointment of an administrator. If the search for heirs is unsuccessful, the administrator turns over proceeds to the State, minus estate expenses and statutory fees. This figure averages \$2.5 million per year.

## LOCAL PROPERTY

### Policy and Planning

Policy and Planning Section reviews and prepares comments on proposed legislation concerning property tax issues; reviews and approves reassessment and revaluation programs and contracts; develops procedures for uniform application of senior citizens' and veterans' deductions and certifies the amounts for State reimbursement to local taxing districts; oversees the administration of the Farmland Assessment Act of 1964; in cooperation with Local Property Field Staff and the Attorney General's Office, defends the Table of Equalized Valuations; coordinates biannual Tax Assessors' Certification Exams; prepares written guidelines and materials on various property tax programs and statutes for use by assessors and county tax board members; and responds to general taxpayer inquiries, correspondence and legislative referrals regarding property tax matters.

### Local Assessment Compliance

***Railroad Property Unit*** classifies, assesses and taxes railroad properties and assesses and computes railroad franchise tax.

***Tax Maps Unit*** reviews and approves municipal tax maps for conformance to current specifications and as required for municipal revaluations.

***Local Assessor Compliance Unit*** was established in the fall of 1997. This unit reviews certain information that pertains to municipal tax assessors. The unit also conducts periodic inspections of tax assessors' and collectors' records in municipalities that are reimbursed by the State for granting property tax deductions for qualified senior and disabled people, and also for qualified veterans.

### Field Assistance

***Field Assistance*** provides direct assistance to 566 municipal tax assessors' offices and 21 county tax boards in solving routine administrative problems. Field Staff investigates SR-1A's for sales ratio purposes; gathers evidence for the defense of Table of Equalized Valuations appeals; collects material and labor cost data for development of improved assessment standards; assists the Transfer Inheritance Tax Bureau with appraisals for inheritance

tax purposes and maintains the Real Property Appraisal Manual provided for use by New Jersey Assessors.

***Sales Ratio*** oversees the Assessment-Sales Ratio Program and develops the annual Table of Equalized Valuations from the data analyzed. The Table is used in the calculation and distribution of State School Aid, to apportion county and regional school district taxes and to measure debt limits of local government units. The Table of Equalized Valuations shows the average ratio of assessed to true value of real estate for each municipality in the State.

***Technical Support*** provides assistance to all municipal taxing districts, county boards of taxation and data centers certified to use the New Jersey Property Tax System, Mod IV, to produce and maintain local assessment records, and coordinates with State programmers to effect software changes in response to legislative changes.

***Education/Training.*** Property Administration personnel are members of the County Tax Board and Tax Assessor's Educational Committees and take a leadership role in training, education seminars and courses which provide procedural information on new and complicated legislation, existing laws and/or procedures to improve the performance of their duties.

### Highlights

- Unclaimed Property receives approximately \$50 million in assets yearly.
- The Unclaimed Property Securities Portfolio received \$12 million in fiscal year 1998.
- 93 applications for Tax Assessors' Exams were filed.
- 14 revaluation programs were implemented in 1998 at an average cost of \$48.07 per line item and a total cost of \$2,840,100. There were 14 reassessment programs implemented in 1998.
- \$126,054,086 in Realty Transfer Fees was generated with \$63,273,876 deposited into the General Fund and \$29,283,687 credited to the Neighborhood Preservation Nonlapsing Revolving Fund for fiscal year 1998.
- \$51,189,404 in State Revenue Sharing Distribution funds was reimbursed to New Jersey's 566 municipalities on November 1, 1998. The total amount of property tax deductions for senior and disabled citizens and surviving spouses was \$33,650,613. The total amount of veterans' deductions was \$17,538,791.
- \$5,030,458 in a one-time State funded retroactive property tax reimbursement was issued to 397 permanently and totally disabled war veterans in August 1998. Over 500 applications for reimbursement were received and processed by Local Property.



## OFFICE OF TECHNICAL SUPPORT

The Office of Technical Support acts as a liaison between the Office of Information Technology (OIT), other State and Federal agencies, and the end users of data processing resources within Taxation, recommends and evaluates new technological concepts for the Division and aids in the automated and manual systems design required by new legislation. Support of these systems includes the use of programming like facilities such as FDF-PC, DCF, NOW, Natural and TSO. The Office of Technical Support has the general responsibility for the design and specification of all New Jersey tax forms, site inspection of prospective vendors and overall form quality assurance. In addition, the branch has responsibility for telecommunications, including the Wide Area Network (WAN) and the fiber optic equipment, supplies technical support, performs special project work, provides numerous management information reports, and maintains the TAXNET Help Desk.

The TAXNET Help Desk assists Division personnel to better utilize the Division's data systems, provides a vehicle for the identification and resolution of system problems and performs system table and file maintenance. During 1998, the TAXNET Help Desk answered 5,255 telephone calls and completed 1,704 problem notification forms and 2,501 employee changes. In addition, 932 Telecommunication Request/Problem Detail Reports involving troubleshooting, removing and installing of telephone devices or other telecommunication equipment were completed.

The Office of Technical Support reviews data processing requests for technical soundness and overall Division desirability. Priorities for these requests are then set by the Small Projects Prioritization Committee (SPPC). During 1998, a total of 113 such requests were evaluated.

This Branch continues to maintain various micro-based systems supporting a variety of applications throughout the Division. Included in this group are systems for the administration of Correspondence Tracking, Attorney Fee collection, and Fixed Asset Inventory.

The Office of Technical Support participated in the change and design of many systems due to legislative and/or Division initiatives. These include:

- Continued expansion of the Internet filing program to include accepting personal income tax extension requests (Form NJ-630) through the Internet as well as allowing authorized EFT taxpayers to complete the

Sales and Use Tax Quarterly Return (Form ST-50) online.

- Continued program modifications to ensure the Division's mainframe systems and its PC based operations are year 2000 compliant.
- Completion of systemic modifications required by the Energy Tax Reform legislation to provide for revisions in taxation of gas, electric and telecommunications.
- Developing a laser generated "Certificate of Authority" to collect sales and use tax. The design includes several new security features built into the form.
- Implementing the use of EDI translation software for electronic transfer of data between the Division and the U.S. Bankruptcy Court.
- Completion of Network projects including Barrack Street building rewiring, server hardware and software upgrade, remote PC connection to the network, E-mail and Internet connectivity.
- Initiating a new concept for TGI scan band returns to concentrate all scan band data on the first page which eliminates many of the problems with processing the return.
- Implementing a postal bar code on return mail pieces, encoding date, tax type and due date, to allow automatic sorting in processing.
- Initiating the use of an online Report Management Facility (RMS) which provides mainframe reports to users electronically saving printing and distribution costs.
- Updating the Division's automated RULAC compliance efforts with new matching techniques and using a contracted vendor to increase efforts to control payments of erroneous homestead rebates.
- Implementing the systemic changes required by legislation for the Homestead Property Tax Reimbursement and the Municipal Landfill Closure Remediation Act.
- Assisted with the consolidation of the registration and reporting functions across State agencies to simplify requirements for New Jersey businesses.

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## CHIEF OF STAFF

The Office of the Chief of Staff is responsible for representing the Division of Taxation throughout State government as well as supplying Division wide support in the areas of Management Services, Disclosure, Fiscal matters, Personnel matters and Labor Relations.

### Management Services

The Management Services activity encompasses the responsibility of providing support in the following areas:

**Facilities Management.** Responsible for providing building maintenance and management services for 11 office buildings located throughout New Jersey, as well as coordinating maintenance and management services for the Division's out-of-State locations. Facilities Management also has the responsibility for managing and maintaining the Division's property, equipment inventory and distribution of supplies to the entire Division.

**Mail Services.** Provides pickup and delivery service of mail for the entire Division, including field offices. This office processes approximately 13 to 14 million pieces of mail annually.

**Records Management.** Responsible for the entire Division's records management and storage. Maintains a records placement and tracking system that enables Division personnel to retrieve documents and files quickly and efficiently.

### Disclosure

The Disclosure function entails many administrative duties, including recommendation and implementation of exchange agreements with other agencies and responses to internal and external requests for tax records. Some of the agencies frequently dealt with include the Internal Revenue Service, New Jersey State Police, Division of Criminal Justice, Division of Law, Division of State Lottery and the 49 other states through their Departments of Revenue/Taxation. Through the mission of this function the Division of Taxation, as well as other taxing agencies throughout the United States, has been able to locate and identify tax evaders who cross state lines.

### Fiscal, Personnel and Labor Relations

The Office of the Chief of Staff works in conjunction with the Department of Treasury's Fiscal Office, Human Resources and Department of Personnel. The objectives are to coordinate, control and maintain all requests for personnel, equipment and budgetary needs and to maintain control over all personnel matters, including disciplinary and grievance actions concerning Division employees.

## OFFICE OF LEGISLATIVE ANALYSIS

The Office of Legislative Analysis is responsible for reviewing all tax bills introduced in the Legislature. It evaluates the potential administrative, fiscal and policy implications of proposals which are scheduled or likely to be scheduled for legislative action; it proposes amendments to insure that a bill can be effectively implemented, prepares Bill Comments and Fiscal Notes, and recommends positions to be taken by the State Treasurer.

In addition, OLA monitors legislative activity, determines when bills affecting the Division are scheduled for committee or house action, and tracks the progress of each bill as it proceeds through the Legislature. It works closely with the Treasurer's Office and, when a bill is enacted into law, it often initiates and participates in the implementation process.

### Highlights

- Monitored and tracked 629 bills relating to the Division of Taxation.
- Prepared 184 Legislative Recommendations and Bill Comments.
- Prepared 127 Fiscal Notes.
- Testified before various Assembly and Senate Committees.
- Provided information on New Jersey legislative tax developments to many persons and organizations seeking such information.
- Tax bills were considered at 48 Assembly and 36 Senate Committee Meetings.
- Thirty bills affecting the Division were signed into law.

## OFFICE OF CRIMINAL INVESTIGATION

The Office of Criminal Investigation is responsible for the detection and investigation of alleged criminal violations in the State tax code. In addition, the responsibility of internal security and internal control assessments falls within the jurisdiction of this area.

The activities within the Office of Criminal Investigation are:

**Office of Criminal Investigation.** Cases that indicate criminal violations and willful intent to evade the tax laws are developed. Based on the findings of the investigation, recommendations for criminal prosecution are made to the Attorney General's Office or to the county prosecutor. The cases are generated from projects within this activity, referrals from other functions within the Division, participation in joint investigations with prosecutors' offices and other law enforcement agencies, and concerned citizens.

OCI works closely with prosecutors and investigators at all governmental levels. Liaison activities are encouraged, and joint investigations are conducted in cases dealing with economic and financial crimes that have tax compliance consequences. Currently, OCI is also actively involved in cooperative efforts with the Internal Revenue Service, the Federal Bureau of Investigation, the US Attorney's Office, and states within the northeast corridor.

**Cigarette Tax.** Special agents assigned to OCI have the statutory authority to investigate violations of New Jersey's cigarette tax laws. Investigative resources have been directed towards the sale of unstamped cigarettes, smuggling, and the location of contraband.

**Internal Security Unit.** Handles sensitive matters, including integrity investigations (attempts by outsiders to corrupt Division employees and also allegations that employees have committed ethical or criminal violations), background investigations of prospective employees, and assaults and threats by persons who impede the functions of the Division. The unit also provides training to enable new employees to recognize possible compromising situations. Examples of cases worked during the fiscal year include attempted bribery of an auditor, theft of checks from the Division mails, various physical threats to employees, and preparation of tax returns in violation of the Treasury Code of Ethics.

## Highlights

- 120 cases were forwarded to prosecutors, 599 complaints were evaluated resulting in the initiation of 71 criminal cases. Total of 162 ongoing criminal investigations.
- 190 criminal investigations of cigarette tax violations were initiated; 34 of these cases involved the seizure of contraband cigarettes and the seizure of 1 vehicle. Seized 16,486 cartons of contraband cigarettes valued at \$359,540.
- 567 background investigations and 53 integrity investigations were conducted.